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Testimony by Dr. Fred McKinney to the ~~GAE~~ Committee on the State of Connecticut's Minority and Women Business Program

Good afternoon, Senator Slossberg and Representative Morin. It is a pleasure to be back before you and the rest of the GAE Committee to discuss needed changes in the State of Connecticut's Supplier Diversity Program.

My name is Fred McKinney. I am the President and CEO of the Greater New England Minority Supplier Development Council (GNEMSDC). The GNEMSDC is a 501-c3 business membership organization dedicated to increasing opportunities for certified minority business enterprises (MBEs). The GNEMSDC was founded in 1976 and is the regional affiliate of the National Minority Supplier Development Council. Our main office is in Hamden, CT with a regional office in Boston, MA. The GNEMSDC has 250 corporate members and over 500 MBEs we work with on a regular basis. In 2010, our certified MBEs had over \$4 billion in annual sales. At the national level, the over 15,000 MBEs had sales of over \$100 billion. Our primary focus is to Certify, Develop, Connect and Advocate for minority

businesses. We are the largest non-profit in the Northeast United States dedicated to this mission. The GNEMSDC also is the project operator for the U.S. Department of Commerce Minority Business Development Agency (MBDA) Boston Business Center located in our Boston office. The MBDA Center was funded in 2011 by a \$1.375 million five year grant from the Federal Government.

This afternoon, I am here to discuss some changes that are critical to the improvement of opportunities for minority businesses in the region. But before I begin my presentation, I want to share some facts with the Committee that demonstrate the importance of this issue.

The State of Connecticut is changing. It is becoming more diverse every year. Based on the most recent Census data, Blacks (10.1%), American Indians (.3%), Asians (3.8%), Hispanics (13.4%) and those claiming multiple racial categories (2.6%) make up 30.2 percent of the State's population (3.6 million). As recently as 1990, the State's minority population was only 16 percent. If not for the increase in minority population, the State of Connecticut would be losing population.

In terms of minority business growth, the Minority Business Development Agency (MBDA) reports that minority businesses nationally outpaced the

growth in non-minority businesses in gross receipts (55%), employment (24%) and the number of firms (45%) over the period 2002-2007. In Connecticut (2007-08) minority businesses represented 38% of the businesses in the State set-aside program while women owned businesses represented 66% of businesses in the program. Women owned enterprises captured 82% of the total spending with Diverse businesses in the State's set-aside program, while minority businesses captured 15 percent of total contracted dollars in the program. Relative to total spending by the State, less than \$2 out of every \$10,000 spent by the State is spent with minority owned small businesses. The percentage of spend going to MBEs has declined since statistics have been maintained. So while minority population numbers and the number of minority firms has been increasing, the State of Connecticut's spend with minority firms has been declining. These diverging trends are not good for minority businesses, minority communities or the state taxpayers in general.

Last year we testified before this committee, and thanks to your support we were able to pass legislation that included the funding of a disparity study that would have looked at what the percentage of spend should be given current business demographics in the state. Unfortunately, the Governor

rescinded the funding for this study as part of his budget savings program. We support the language in the proposed legislation with some changes.

We support the language that increases the goal for spending with Minority and Women Owned Enterprises. We also support the language in the bill, that I interpret as establishing a separate goal for racial and ethnic minority enterprises as distinct and separate from the goals for women owned enterprises. However, I think there is room to improve the language so that the intention of the legislation is crystal clear. So bear with me as I make the case that the State should adopt the language that is universally accepted and understood by the Federal government, most other states and Corporate America.

The term Minority Owned Enterprise, MBE, means a firm that is owned managed and controlled by members of racial and ethnic minorities, period. The term Women Business Enterprise, WBE, means a firm owned, managed and controlled by a woman or women. Obviously, there is an intersection of the two when we are talking about women owned firms whose owner(s) are also members of racial ethnic groups. These WBEs

who are also MBEs are like a wild card in a poker game, they can fit in either box or both. The State would be better served if instead of trying to squeeze every group that is being offered a benefit into the category of Minority Owned Enterprise, they change the name of the program to reflect generally accepted terminology. The State should use the term Diverse Businesses to reflect it's interest in supporting MBEs, WBEs and disabled owned businesses. This standard terminology would allow the State to rebrand it's program as truly a Supplier Diversity Program. Under this terminology, Diverse Businesses would include MBEs, WBEs, and businesses owned by disabled persons.

The language in the legislation should use the above terminology and it would make everyone's life easier. But this is more than a pedantic exercise in the English language. There are some very real benefits if these changes are incorporated into State law.

If the law read that the State set-aside 25 percent of all State contracts for small businesses, and that 50 percent of that amount (12.5%) was set-aside for what I would re-label Diverse small businesses, and that not less than 50 percent of that amount (6.25%) was set-aside for Minority small businesses the confusion would be eliminated. If the State could accomplish these goals for MBE procurement, it would have significant

impact on minority business development, minority employment, and the economic condition of some of our most distressed communities.

I also want to take this opportunity to share with the GAE Committee some other actions that should be enacted that would improve the utilization of MBEs throughout Connecticut.

1. The State should eliminate the Municipal Exemption program that exempts many state contracts from abiding by the State's set aside program. Data provided by the CHRO indicates that over \$7 billion in state contracts was exempt over the past ten years. Most of these Municipal Exemptions are granted for towns and cities with small proportions of minority residents. If these contracts had not been exempt, certified MBEs would have had greater access to opportunities throughout the state. This exemption is patently unfair and perhaps unconstitutional since, non-minority businesses are not prohibited from contracts in predominantly minority communities. It creates an economic apartheid system in the state that is not necessary, uncompetitive, is counter productive, to the interest of the state. When municipalities spend their own money to build and buy goods and services, a case can be made that they can do whatever they see fit to do. However, when municipalities are receiving funds

from all State taxpayers, there is a legitimate and perhaps legal interest in having those State supported projects abide by the State's set-aside program.

2. The disparity study referred to above needs to be put back in the budget. The Governor's action to cut out the study's funding sends a strong message that minority business development is not a priority to the administration or the state. A disparity study is foundational for a viable legally supported program based on the facts. The fact of the matter is, the state that prides itself on being a economic leader in the region must pay greater attention to the growing minority resident population and minority business population. The future of our economic health, for all residents is a function of the development of job creating, tax paying, growing minority businesses.
3. The State needs to decide if it is going to continue to be in the certification business. Currently, the state does not allocate the resources necessary to keep ineligible businesses from receiving their minority or women business designation. There is not proper investigation or oversight of firms that are currently certified by the State. The lax standards allow illegitimately certified businesses from

fraudulently stealing business from legitimate minority and women businesses. My recommendation is that State either allocate the resources necessary to do certification well, or stop its certification program immediately. It would probably require increasing the State's certification staff by 200 to 300 percent. (A recent scandal in Chicago pointed out the risk of not paying attention to these matters. A federal probe into the City's contracting found numerous examples of criminal fraud associated with women owned businesses certified by the City that were nothing more than "pass through" businesses set up to direct money to non-minority firms. In response, the City has pledged to spend an additional \$11 million per year on enforcement of its own certification program. Is the State of Connecticut willing and able to make similar investments in its Supplier Diversity program?) The alternative is for the State to allow State Agencies to select certified MBEs from the GNEMSDC and certified WBEs from the list of WBEs certified by the Women's Business Entrepreneurial Network Council (WBENC). The GNEMSDC currently certifies businesses as minority owned and managed. The Center for Women Enterprises certifies business as women owned and managed. This approach would not only save

State taxpayers money, it would result in a more reliable system of knowing the validity of companies eligible for the state's supplier diversity program. It is important to note, that the GNEMSDC and CWE currently do this for Corporate America. This is also a recognition of the Corporate America's faith in our decisions on matters of certification, and it speaks to the fact that certification is different from procurement and M/WBE development. We would welcome starting a dialogue with the DAS to make this happen in a way that would protect the interest of the State. For instance, we could include State buying representatives on our Certification Committee to review applicants' eligibility. We could augment our certification so that only small certified minority businesses would have access to State set aside opportunities. We could work with buying organizations so that they could meet with other public and private buyers and a wide range of high quality competitive MBEs. The one major drawback of this would be that eligible MBEs and WBEs would have to pay a fee to be certified. Right now the M/WBEs do not pay for their certification with the State, but the taxpayers do. Our proposal would match the economic beneficiary with organization responsible for the cost.

4. The State also needs to more strictly enforce violations by fraudulent companies that are known to be in violation of the law. If there are no consequences of violating the law there will be abuses. (See the article about the Chicago program.) The violations do not stop with illegal M/WBEs. There are too many examples of majority owned firms who use M/WBEs in their proposals to win State contracts, but then never use them once they actually win the contracts.

I want to thank the Committee for allowing me the time to share these comments with the Committee. This Committee and the political leadership in the State has the opportunity to make some changes in State law that will impact the economic health of our State for many years to come by enacting this legislation. What we are supporting is the economic health and well being of State and all of its citizens. Our collective future is inextricably tied to the development of minority businesses.

Respectfully,

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